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POVERTY ALLEVIATION THROUGH INTERNATIONAL TRADE

Report on the Workshop on

Poverty alleviation through international trade

(Santiago, Chile, 10-13 January 1995)

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INTRODUCTION AND SUMMARY OF OPENING STATEMENTS

1. The UNCTAD secretariat convened an interregional workshop entitled "Poverty Alleviation through International Trade" that was held in Santiago, Chile, from 10 to 13 January 1995. The workshop was organized with support from the United Nations Development Program (UNDP) and the Governments of the Netherlands and Switzerland, and was hosted by the Government of Chile. There were over 50 participants in attendance, including experts attending in their personal capacity, senior government officials, and representatives of international organizations, academic institutions and non-governmental organizations. A list of participants is provided in Annex I.

2. The UNCTAD secretariat prepared an "issues note" for the Workshop that contained a preliminary substantive analysis of the topics to be addressed. The note, which was made available in English and Spanish, was sent to all panelist-participants before the Workshop was held in order to help orient them on the issues to be taken up in the meeting. In addition, 14 technical papers were presented at the workshop by experts invited by UNCTAD to serve as panelists at the meeting. A report entitled "International trade and poverty alleviation" (TD/B/CN.2/13), prepared by the UNCTAD secretariat for the third session of the Standing Committee on Poverty Alleviation, draws heavily on the technical papers and on the UNCTAD secretariat background note that were submitted to the Workshop. Furthermore, the Workshop papers will be published in a compendium study later in 1995. A list of the papers is contained in Annex II.

3. The Workshop was held at the Headquarters of the Economic Commission of Latin America and the Caribbean (ECLAC) in Santiago. Simultaneous interpretation in English and Spanish was provided for all sessions. After a plenary opening session and a joint working-group session, the participants divided into two working groups. The urban working group focused on export-oriented micro- and small-scale enterprises with respect to their access to foreign markets and their impact on the livelihood of the poor. The rural working group focused on non-traditional agro-exports, likewise in terms of their access to international markets and their role in poverty alleviation. On 13 January, the two working groups reconvened in a second joint working group session in order to present their conclusions and recommendations.

4. This report of the Workshop is organized as follows: first, a summary of the opening statements is presented below. Then, chapter I gives a summary of the presentations made by two panelists during the first session of the joint working group, after which a summary of the discussion by participants is given. Chapters II and III summarize the panelists' presentations and the participants' discussions of the urban and rural working groups, respectively. Finally, chapter IV contains the conclusions and recommendations reached by the urban and rural working groups.

5. Opening statements were made by Messrs. Luis Maira Aguirre, Minister of Planning and Cooperation of Chile; Carlos Fortin, Officer-in-Charge of UNCTAD; Ernesto Tironi, Ambassador and Permanent Representative of Chile to the United Nations Office at Geneva; and Oscar Altimir, Deputy Executive Secretary of the Economic Commission of Latin America and the Caribbean (ECLAC).

6. Mr. Luis Maira, in his statement, focused on the poverty-alleviation policies and programmes being pursued by the Chilean Government. He also made mention of the active role played by his Government in the preparatory process

for the World Summit for Social Development. He stressed that the present Workshop would make a valuable contribution to the Social Summit, and that the Summit is important to the Chilean Government because of the importance it attaches to poverty alleviation. Mr. Maira went on to point out that, despite Chile's annual GNP growth of 6 per cent, Chilean society continues to be confronted by sharp social differences, namely, inequality, destitution and an indigenous population deprived of its basic social and economic needs. Chile's approach to overcoming poverty, he pointed out, is integrated in orientation and unites the efforts of both the public and private sectors. Community participation in the identification and planning of development works is encouraged, and targeted assistance is given to vulnerable groups such as children, the elderly and the disabled. The public sector, in many instances with the active involvement of the private sector, has helped to alleviate poverty in Chile through the provision of various social and economic services, such as housing, social security, infrastructure and the promotion of exports.

7. In his statement, Mr. Carlos Fortin said that, in view of the trade opportunities accorded by the Uruguay Round, developing countries ought to look to ways of expanding their exports of labour-intensive manufactures and commodities as a possible vehicle for alleviating poverty. He specified that the subsectors selected for in-depth analysis at the Workshop were chosen in accordance with the following criteria: they will benefit from a significant reduction in trade barriers in the developed countries; there are sufficient income elasticities of demand in importing countries for continued growth in the subsectors concerned; the subsectors are labour intensive and employ mainly unskilled workers on a regular or seasonal basis; and they provide opportunities for advancement enabling many of the poor to rise out of poverty. Mr. Fortin pointed out that, besides contributing to a better understanding of how international trade and poverty alleviation interact, the ultimate aim of the Workshop should be to put forward practical policy recommendations and measures for the consideration of governnments and the international community. He said that he expected that useful lessons could be obtained for policy-making purposes from the many case-studies of successful experiences that would be discussed at the Workshop.

8. Mr. Ernesto Tironi, in his statement, said that the issue of poverty alleviation through international trade is of topical interest in light of the successful conclusion of the Uruguay Round negotiations. He stressed the point that trade liberalization could help alleviate poverty by creating employment opportunities in new export activities. He noted that it would be interesting, in this connection, to study the effect of trade liberalization on, among other things, labour, wages, external markets, foodstuffs, commodities, manufactures and textiles. According to Ambassador Tironi, the 1990 World Development Report of the World Bank on poverty needed updating and poverty-alleviation strategies, among other things, should concentrate more on promoting fuller utilization of what the poor produce. He concluded his statement by expressing the wish that the Workshop would result in a useful exchange of experiences leading to strengthened cooperation among nations, including South/South cooperation.

9. On behalf of the Executive Secretary of ECLAC, Mr. Oscar Altimir made a brief statement in which he welcomed the Workshop participants to ECLAC headquarters and assured them that ECLAC stood ready to facilitate the provision of logistical support necessary for the success of the meeting. He wished the Workshop organizers and participants success in their proceedings during the course of the week.

SESSION I OF THE JOINT WORKING GROUP: GENERAL BACKGROUND

10. Mr. Albert Berry was the panelist for the urban segment of this joint working group. In making his presentation on the role of small enterprises in poverty alleviation through international trade, Mr. Berry argued that small enterprises are the main employers of the poor in developing countries and therefore their impact on poverty alleviation depends on developments in the sector. Growth and development of the small-enterprise sector create new jobs for the poor and thus reduce income inequalities, as the experiences of some of the fast-growing Asian countries have showed. Small enterprises, in his view, can be important engines of growth and development.

11. Mr. Berry pointed out that it is difficult to assess with certainty the impact of trade liberalization on poverty and income inequality, but that he felt that liberalization policies have generally been followed by growing income inequality. These developments are due in part to the inability of small enterprises to adjust to the policy reforms, as well as the lack of special policy consideration for the sector within the overall macroeconomic policy framework. The neglect of policy formulation for the small-scale sector has been mainly due to the lack of up-to-date information on the performance of the sector, as well as to its relative importance in the whole economy.

12. At the same time, there is evidence that trade-liberalization measures have enhanced the export performance of small enterprises in certain countries and for various reasons. First, the removal of bureaucratic hurdles has benefited enterprises engaged in foreign trade. Second, favourable interventions by the State have helped to give small enterprises sufficient time to adjust to reforms and thereby grow and develop on a sustainable basis. Tnird, the growth of small enterprises in international trade has in some cases been facilitated by subcontracting arrangements with large enterprises.

13. Mr. Berry emphasized that to gauge the implications of trade policy reforms for small enterprises, it is important to understand: (i) the factors which improve the performance of those enterprises and their contribution to poverty alleviation; (ii) the relative abundance of labour to capital and their utilization in small enterprises; (iii) the density of small enterprises networks and the functioning of their markets; (iv) macroeconomic management policies, including, in particular, an appropriate exchange rate; (v) marketing support measures; and (vi) the issue of clustered small and medium-sized enterprises.

14. Mr. Peter Little was the panelist for the rural segment of the workshop. He discussed the role of smallholders in the promotion of non-traditional agricultural exports, and pointed out that there is evidence covering the past 30 years which shows that the smallholder sector has performed remarkably well, particularly as regards the export of fresh fruits and vegetables from Latin America, Asia and some African countries. He also pointed out that the widespread adoption of strategies to export non-traditional products is due in part to the fact that the structural adjustment programmes that have been adopted by many developing countries include a dimension which encourages export-diversification strategies that generate foreign-exchange earnings, promote entrepreneurship and foster agricultural development.

15. As regards the structure of the non-traditional agro-export sector, Mr. Little reported that considerable diversity can be found among producers, ranging from small-scale growers to large transnational enterprises. The role of smallholders also differs from country to country. For example, he pointed out,

the bulk of non-traditional export crops in certain West African countries is grown on small- and medium-sized farms, while in some eastern and southern African countries non-traditional crops are produced mainly on large holdings. Mr. Little noted that while the role of government in the sector has been diminished as a result of the adoption of structural adjustment programmes, the public sector remains indispensable for ensuring that smallholders play a significant role in non-traditional agro-exports. In recent years, he added, the participation of smallholders in the sector has declined as export firms increasingly opt either to contract with large growers or to produce the commodities themselves on their own estates. He added that the liberalization of land markets has allowed large enterprises to buy up sizeable parcels of farm land from the smallholder sector, often with the active encouragement of the national governments concerned.

16. Turning to the question of poverty alleviation, Mr. Little said that empirical evidence suggests that the incomes of farmers engaged in the production of non-traditional agricultural exports can be a multiple of the incomes of smallholders engaged in traditional agriculture. The capital requirements of some forms of non-traditional farming, however, indicate that the farmers in question are not all poor.

17. The challenges that smallholders in the sector face include: (a) high volatility in international market conditions; and (b) increased demand by large buyers, such as supermarket chains, for high-quality, "standardized" produce. These changes have favoured large producers and encouraged a shift from small to larger-scale farming approaches. On the other hand, Mr. Little pointed out that the processing of fruits and vegetables for export represents a possible alternative for smallholders, because the quality standards for this produce are lower than they are for fresh export products.

18. As regards policy issues within a trade liberalization context, Mr. Little raised a number of considerations bearing on the non-traditional agro-export sector. He stated that: (a) a differentiated approach should be adopted to make allowance for the different needs of small and large enterprises; (b) the role of the public sector in infrastructure supply and institutional support is essential for facilitating access to exports markets; (c) producer associations should be promoted in order to secure fair prices for smallholders and negotiate reasonable transport and storage fees; and (d) tariffs on essential agricultural inputs and appropriate technology ought to be reduced or removed.

19. In the discussion that followed the presentations of the panelists, one participant described how export diversification had been achieved in Colombia through, inter alia, the development of panela and guava agro-industries which are labour-intensive, require limited technology and involve a great number of small producers. The participant explained how initial difficulties in marketing the products had been overcome through improvements achieved in the quality of the products as a result of the efforts of regional producers' associations.

20. Another participant stressed the importance of producers' associations and cooperatives in gaining concessions from the public sector with respect to difficulties brought on by an overvalued exchange rate, reduced subsidies and the introduction of new taxes affecting the production of goods for export.

21. Some participants emphasized the necessity and importance of further studying the impact of economic liberalization on the distribution of income. In principle, they said, deregulated labour markets and increased productive efficiency should have a positive effect on development. In practice, however,

inequality has widened and poverty has grown in certain countries that have liberalized their economies.

22. It was generally agreed that direct measures are important for the small-scale sector. Training in entrepreneurship skills, for instance, is helpful. Much can be learned from the dynamics and behaviour of small enterprises as they respond to external shocks. Taiwan Province of China and Hong Kong were cited for their success in having small export-oriented enterprises play an important role in economic growth and poverty alleviation. The evolution of large numbers of entrepreneurs, however, was pointed out as indispensable to the success of the small-scale sector.

23. Importance was also given by participants to overcoming the intellectual predisposition to underestimate the significance of the small-scale sector - whether agricultural smallholders or small and micro-enterprises - in terms of its capacity to participate in export-markets production.

II. WORKING GROUP 1: URBAN SECTOR ISSUES - EXPORT-ORIENTED SMALL- AND MICRO-ENTERPRISES

A. Interfirm networks in the Republic of Korea

24. Mr. Myongrae Cho reviewed the recent experience of the Republic of Korea and said that the challenges posed by changes in international competition and labour market conditions have led to a radical restructuring of production methods and employment since the middle of the 1980s. As a result of the restructuring and streamlining of the operations of large Korean companies over the last 10 years, a dense network of interfirm relationships has evolved which links together large conglomerates, medium-sized enterprises and small firms through subcontracting arrangements. In particular, small firms have experienced a phenomenal growth in numbers, employment and value-added output. This growth has been partly due to the partnership between the public and private sectors, in which the government has pursued an overall development strategy and performed a supervisory role.

25. Mr. Cho said that the creation of new small firms was often a direct result of the spin-off of activities from large enterprises. In other cases, new firms have been attracted to emerging market opportunities made possible by technological innovations. The advent of numerous new small firms has contributed to a more consolidated and diversified industrial structure. Many of these small-scale firms have entered into subcontracting arrangements with larger firms on a regular and stable basis. These subcontracting relations involve complex sets of interfirm linkages of small firms around larger ones. The small firms tend to specialize in various stages of the fragmented production processes required for large firms' operations.

26. The way that Korean interfirm networks have evolved suggests two underlying tendencies: the scope of networks has become larger and the form of networks more diversified. This evolution has been due to two factors: first, the applications and adoption of foreign technologies in domestic production, and second, the dissemination and diffusion of niche-specific technologies among small-scale enterprises. These processes have been achieved through various institutional devices, including government policies that aim at promoting small-scale industry. The most potent means has been the sharing of technical knowledge and production objectives between large, medium and small firms. Cooperation-based

linkages are largely founded on mutual trust and interpersonal respect imbedded in existing social networks. Interfirm linkages are also subject to government regulations on price and design matters, and in extreme cases are resolved through political mediation.

27. The industrial restructuring of large firms that has been taking place has proved to be a constructive force in the new moulding of the Korean economy. Experience shows that large and small enterprises alike are critically important for an economy to gain international competitiveness. The role played by large firms in the economic development and export competitiveness of the Republic of Korea has been partly spontaneous and partly government-encouraged, and has resulted in the promotion of technical innovations, transfer of business technology, interfirm cooperation and the like. Furthermore, the mobilization of production through the participation of a plethora of small firms has been crucial in enabling domestic large firms to compete in global production processes.

28. According to Mr. Cho, the current emphasis placed on the role of small enterprises in the economy concerns not only the generation of employment and incomes, but also the role of the small-scale sector in diversifying the Republic of Korea's industrial structure. Technological innovations, cooperative interfirm relations, good wages and vocational training have proved important in enlarging the role of small firms. In the Republic of Korea's present strategy, what matters is not so much the size of the enterprises per se, but the ways in which large and small firms are joined together in sector-specific technological, social and political relations.

B. Subcontracting in the Mexican industry

29. Mr. Ismael Aguilar's presentation focused on subcontracting operations in the Mexican industry which, he said, take various forms and have had profound implications for the external sector. He discussed subcontracting in the context of industry, as well as the "maquiladora" (a kind of export processing zone) programme. Some of the types of subcontracting that Mr. Aguilar described included the Temporal Importation Programme (PITEX), the Highly Exporting Companies (ALTEX) and the Border Industrial Programme. The benefits for Mexico associated with these programmes have included their role in generating employment and a substantial amount of foreign exchange. Critics of the programmes, however, have pointed out that only limited employment has been created due to the low level of maquiladora integration with the rest of the Mexican economy, as witnessed by the low level of purchases from the domestic market. There has also been criticism concerning the deterioration of the environment as a result of maquiladora investments.

30. Industrial clusters on the United States-Mexican border have been very weak backward linkages in the Mexican economy. They differ from other maquiladora operations in the interior of Mexico where local content purchases have reached an average of 6 per cent, which is six times that of Tijuana and three times the national average.

31. Inhibiting factors for more national-content in maquiladora output include inadequate administrative procedures, regulations, infrastructure and market structures. Guadalajara and Monterrey feature levels of local-content which tend to be higher than both the national average and the maquiladoras located in the border areas. In both cases, local capital as well as cooperation with large firms and suppliers are the main determinants of larger volumes of local and

national content. The relative successes of subcontracting activities in Guadalajara and Monterrey underline the importance of private-sector and local-government involvement in building the required linkages between small subcontractors and foreign companies. These considerations indicate the need to promote clusters of maquiladoras which have a high proportion of locally owned firms, as well as the application of appropriate and flexible technologies geared to local production for export. These clusters have been able to generate employment and income particularly for semi-skilled and unskilled labour.

32. The assembly and exportation of products by the Mexican maquiladora industry is aimed at the United States. Many new maquiladors of Japan, the Republic of Korea and Taiwan Province of China have established themselves in Tijuana and Mexicali, among other places, with the aim of producing for United States markets. By 1993, out of 45 maquiladora enterprises, 39 were from Japan and the rest were from the Republic of Korea and Taiwan Province of China. Unlike United States maquiladoras, the parent companies of the Japanese plants have been large corporations such as SONY, SANYO and YASAKY. These corporations use advanced levels of technology and have integrated their Mexican-based production into their international operations. The potential for the transfer of advanced technology to Mexico has therefore been enormous. Subcontracting to small and micro-enterprises has been a major feature of the new maquiladora enterprises, although to date virtually all of this subcontracting has been with the traditional Japanese suppliers of Japanese corporations, or with Japanese suppliers that have set up operations in Mexico in close geographical proximity to their contractors.

33. According to Mr. Aguilar, the challenges and opportunities which these forms of subcontracting pose for the development of small and micro-enterprises in Mexico call for a concerted policy on the part of the Federal Government. In designing a sound industrial policy, the Government of Mexico should apply the lessons learned from past experience with traditional United States-Mexican border maquiladoras, as well as provide an overall policy framework and institutional support structure in which private enterprises, both small and large, can develop.

C. The knitwear cluster in Tiruppur (India)

34. Ms. Padmini Swaminathan made a presentation based on her paper regarding the knitwear cluster in Tiruppur, near Madras. She described the Tiruppur industrial cluster as a "socio-territorial entity which is characterized by the active presence of both a community of people and population of firms in one naturally and historically bounded area". Among the distinguishing characteristics of Tiruppur is its network of medium, small and micro-enterprises that compete and cooperate with each other according to their individual and mutual needs.

35. Ms. Swaminathan explained that up to 1980, knitwear production in Tiruppur was mainly a cottage industry with relatively low quality levels of production and with sales confined to local markets. Enterprises were managed largely by family members with the help of a few workers. Tiruppur began only to cater to export markets from 1980 onwards, as the industry began to grow. However, most of the exports of the 1980s consisted of indirect exports whereby small firms from Tiruppur sold their goods in international markets through export houses situated in Bombay and New Delhi. Until 1985, export growth was slow but steady and confined to one item, namely, T-shirts. From the late 1980s, the industry diversified very quickly into the export of diverse garments.

36. In addition to knitting/stitching, dyeing/bleaching, printing and embroidery enterprises, the panelist said that there exists in Tiruppur a host of supporting industrial units that provide necessary interfirm and marketing linkages. The cluster of small and micro-enterprises directly employs skilled, semi-skilled and unskilled workers. A complex and dense network has resulted from the interactions of export-manufacturers, local-market manufacturers and merchant-exporters. The need to comply with international standards has induced small enterprises to team up in order to exchange information and cooperate in different stages of production that involve technology sharing, marketing, packaging and negotiation of prices.

37. The growing emphasis on production for export has polarized relations between export-oriented enterprises and those producing for domestic markets. However, it has also facilitated entry for new firms by providing an active market for second-hand machines. Technological innovation has been limited to the advent of new machines; incremental innovations, however, have permeated the production processes.

38. Ms. Swaminathan linked the issue of the cluster's impact on labour employment and wages to the issues of age and gender. She pointed out that the available evidence is inconclusive as regards wage levels, working hours and possibilities of career advancement.

39. The panelist described the formation of an exporters association through which Tiruppur has been able to engage in a constructive dialogue with local the government. This association has proposed to the local government concrete measures which it wishes to see introduced in support of the further industrialization of Tiruppur, such as the provision of infrastructure and effective institutional arrangements.

D. NGO support to export-oriented, small and micro-enterprises in Peru

40. Mr. Samuel Chincaro spoke about the involvement of non-governmental organizations (NGOs) in assistance programmes for small and micro-enterprises in Peru. He said that these enterprises play an important role in the social and economic development of the country. They account for a large part of informal employment in Lima, as well as in certain rural areas. As regards the sectoral distribution of small and micro-enterprises, available information suggests that they cover most economic activities of the economy.

41. The panelist pointed out that participation in international trade by small and micro-enterprises in Peru has been limited to a few sectors, notably those engaged in the production of alpaca sweaters, handicrafts and other knitwear. Access to international markets has been hampered by a number of factors, such as the lack of information on trading opportunities, low quality, inadequate finance and insufficient production levels. These constraints have led a number of local NGOs to support small and micro-enterprises by providing them with credit, marketing facilities, assistance in negotiations with buyers, and the formation of producer associations.

42. According to Mr. Chincaro, the experiences gained from the textile and knitwear sectors show that, given a favourable economic environment and access to necessary resources, the small and micro-enterprise sector can be dynamic in creating employment and generating income for the poor. This has especially been the case with alpaca sweater manufacturers. In this connection, exports provide complementary elements which reinforce the development of the sector.

43. As regards the lessons to be drawn from NGO interventions, it appears that their involvement can remove certain obstacles that have restricted the access of small enterprises to international trade. The interventions of NGOs include advice on negotiation strategies; the mobilization and grouping of small firms into producer and exporter associations; and the promotion of self-help and autonomy among micro-enterprises.

E. The experience of Chile: FOSIS' financial assistance to small and micro-enterprises

44. Ms. Lucia Pardo reviewed the recent experience of Chile's Solidarity Fund (FOSIS) in providing financial support to those small and micro-enterprises which have little or no access to credit from formal financial institutions. She said that FOSIS also provides technical assistance and institutional support for trade promotion and training.

45. In reporting the results of a pilot study of a sample of 121 micro-enterprises prepared by FOSIS, Ms. Pardo said that the research has shed light on some important characteristics of this sector. It showed, for example, that there are six main sectors in which micro-enterprises are engaged: textiles, wood and furniture, metal and leather work, knitwear and repair work. Typically, micro-enterprises are family owned and are comprised of four members, two of whom are fully employed.

46. As regards their modes of production, the panelist pointed out that activities such as textile and knitwear production employ mainly women, while leather and metal work have been traditionally reserved for men. Other revealing features include: the relatively high level of education of those employed in the small-scale sector, which averages 10 years, and the longevity of micro-enterprises, which falls between 8 and 12 years. Ms. Pardo also said that the majority of micro-enterprise owners have been engaged for a long time, either directly or indirectly, in the sector, and well before the creation of the enterprise in question. This fact suggests that there is limited entry and exit from the micro-enterprise sector in Chile.

47. Turning to the link to international trade, Ms. Pardo said that in 1990-1992, out of the six sectors, four included a number of enterprises that exported to neighbouring countries and to Europe: in knitwear, that was the case of 29 per cent of the enterprises surveyed; in wood and furniture, 14 per cent; in repair work, 7 per cent; and in textiles, 4 per cent. However, in terms of export value, such exports remained relatively small, in large part because of the enterprises' lack of familiarity with foreign markets. Despite this handicap, Ms. Pardo was of the view that dynamic micro-enterprises that occupy suitable niches can be effectively integrated into international trade with institutional and credit assistance from agencies such as FOSIS.

F. Support to export-oriented small and micro-enterprises: Egypt's Social Fund for Development

48. Mr. Hussein El Gammal informed the Workshop participants about the activities of Egypt's Social Fund for Development (SFD) in the area of small and micro-enterprises. He reported that, as of 31 December 1994, 230 projects had been financed by the SFD through its five core programmes, for a total of LE 1,412 million.

49. According to Mr. El Gamal, the projects financed by the SFD have generate employment opportunities, supported the integration of medium- and large-scal industries and improved technical and administrative skills. He said that the SF gives particular attention to small-scale industries, since they face a range o difficulties that hinder their growth and development. The problems that the must overcome include an insufficient knowledge of market requirements; a inability to identify market demands; lack of competitiveness; and inexperienc in foreign trade.

50. A number of measures have been introduced by the SFD to address thes issues. They include the establishment of a marketing studies centre an information centre for small-scale industries, in particular to service existin or potential entrepreneurs receiving SFD support. The SFD has also establishe a promotion centre entrusted with the responsibility of linking existing an potential consumers with importers/buyers of their products. Moreover, accordin to Mr. El Gammal, the SFD supports local and international exhibits designed t promote these products and find new market outlets. The participation of smal and micro-enterprises in trade fairs is financed by the SFD in cases where th sponsoring agencies do not market their products on their own, or where small scale entrepreneurs themselves lack the financial resources to pay for thei participation. It was also pointed out that the SFD has established a quality control unit for the purpose of improving the quality of the products of SFD financed projects, in order to increase their competitiveness both locally an internationally.

G. Small and micro-enterprises cluster in Peru: The case of footwear in Trujillo

51. In his presentation, Mr. Asuncion Vargas described and analysed th experience of micro-enterprises engaged in footwear production in Trujillo, Peru He said that the clustering of small and micro-enterprises in Trujillo engage in this activity had its origin in historical, geographical and social factors The cluster is characterized by readily available and inexpensive leather; large demand for low-cost shoes; low levels of investment required to star production; and a need for only simple technology. In addition, the cluster ha benefited from the entrepreneurial spirit of the local population and th abundance of low-cost labour. Many of the owners of micro-enterprises ha migrated to the area from neighbouring Andean regions.

52. As regards the structure and distribution of small firms, a survey carrie out in 1993 shows that they can be classified in four categories: (i) subsistenc micro-enterprises which represent 17 per cent of the total cluster. These ar family-owned and operated firms. Their technology is basic and they have n access to credit from formal credit institutions; (ii) emerging micro enterprises, which are the largest group and account for 62 per cent of the tota sample. They are family-operated and typically hire three or four workers fro outside the family. Like subsistence micro-enterprises, they have no access t credit from formal financial institutions; (iii) micro-enterprises that, i relative terms, have experienced substantial growth. These firms represent 20 pe cent of the total cluster and employ on average eight relatively skille employees. They utilize technology that allows for semi-diversified productio and the purchase of inputs on a wholesale basis. This segment of the cluster ha been growing steadily and has important potential for future growth an innovation; (iv) small footwear firms that account for only 1 per cent of th total industry but offer attractive working conditions and utilize moder technologies. They employ over 16 workers each, and usually market and distribute their products directly through their own retail outlets in Trujillo.

53. Mr. Vargas said that over 99 per cent of persons engaged in small and micro-enterprises in Trujillo are functionally illiterate. However, most have a practical background and work experience gained over a number of years that often predates the creation of the micro-enterprises in question. As regards their legal status, the panelist said that out of 1,800 footwear enterprises in Trujillo, 40 per cent were registered under the Industrial Act, and that the remainder operated in the informal sector. Furthermore, those engaged in the informal sector had well-developed networks of informal subcontracting arrangements with other micro-enterprises or individuals.

54. Turning to market opportunities, Mr. Vargas pointed out that the bulk of the industry's output is sold domestically, while a small proportion of footwear is exported to neighbouring countries, mainly to Ecuador through border trade. The difficulties the sector faces are numerous and common to all micro-enterprises in developing countries. The main difference, however, lies in the potential which exists for better-quality production at competitive prices, which gives the industry the potential for future growth in international markets.

55. Mr. Vargas said that the assistance which the National Fund for Compensation and Social Development (FONCODES) provides to small and micro-enterprises can catalyze firms to be more successful and thereby alleviate poverty. He described the experience of FONCODES and concluded that its experience shows that there is a need for concerted and multifaceted assistance to micro-enterprises.

H. The export experience of the Novo Hamburgo footwear cluster (Brazil)

56. Dr. Enio Klein's presentation was on the footwear cluster of the Sinos Valley, Novo Hamburgo, Brazil. This cluster consists of enterprises in 50 municipalities that are spread over a 300km distance. The industry, he said, is highly labour intensive and offers low wages to unskilled workers, most of whom are recruited from the rural areas. The industrial cluster itself, however, is a closely integrated community with a dense network of relationships between micro-enterprises. The need to meet high-quality standards has induced micro-enterprises to cooperate closely and share knowledge and production techniques with one another so as to ensure the cluster's survival.

57. Drawing on the evidence available from the Holian industrial clusters and those of Rio Grande do Sul, Dr. Klein identified a number of issues this sector faces and which limit its development and integration in world markets. The limitations include, above all, a lack of confidence among the members of the cluster in the overall economic environment, government macro- and industrial policies, and the sustainability of market opportunities. In the panelist's view, measures are necessary which can encourage or sustain "trust", thereby creating a favourable environment in which small and micro-enterprises can develop and create jobs and income for the poor.

Discussion

58. Participants pointed to the importance of industrial clusters of small and micro-enterprises for national development in general and the alleviation of poverty in the developing countries. They made a number of specific comments in this regard:

(a) Some participants pointed out that small and micro-enterprises have proved to be quite resilient during times of economic crisis and shock. They have created new jobs that have helped absorb the "new poor", and have provided affordable goods and services to poor and non-poor consumers alike. This has generally happened without state or outside assistance.

(b) Empirical evidence shows that generalized government policies have had little, if any, positive impact on small and micro-enterprises operating in the informal sector. Furthermore, the benefits of economic growth in the formal sector have been slow to trickle down to the poor. Well-targeted programmes aimed at small and micro-enterprises have been essential for the development of the sector. In this connection, several participants spoke about programmes in their countries that aim at assisting the small-scale sector through the provision of credits and technical assistance.

(c) Participants were of the view that local elites who own medium or small enterprises may become more powerful under government programmes as they are better positioned to capture the benefits of government largesse than the owners of micro-enterprises. It may therefore be incorrect to assume that the State and the intermediary associations that represent industrial clusters will invariably support programmes of most benefit to micro-enterprises.

(d) Problems remain in formulating linkages between small and large firms and connecting them with government machinery through an appropriate institutional framework. While participants were of the view that macroeconomic policies should aim at promoting trade, they were concerned that such policies should not unduly favour large enterprises at the expense of small and micro-enterprises.

(e) Access to credit was perceived by a number of participants as a key limitation to achieving maximum efficiency from a well-functioning cluster of small and micro-enterprises. The experiences related by participants at the Workshop revealed that micro-enterprises are generally inexperienced in dealing with formal institutions, and that formal-sector credit is rarely available to them.

(f) Some participants pointed to the continuing trade barriers that impede the access of many developing country exporters to international markets. The Uruguay Round agreements have not gone as far in trade liberalization as many developing countries have done of their own volition to liberalize import regimes.

III. WORKING GROUP 2: RURAL SECTOR ISSUES - NON-TRADITIONAL AGRO-EXPORT PRODUCTION

A. Non-traditional agro-exports from Zimbabwe

59. In his presentation, Mr. Sam Moyo explained that the Zimbabwean agrarian structure is characterized by extreme inequalities. Four million underemployed people, comprising 40 per cent of the total population, live in extreme poverty, and 70 per cent of the population subsist on the land. In addition, 35 per cent of the rural population consist of food-deficit households. Many of the rural poor rely on remittances from the urban sector to meet their basic needs. Some 300,000 wage labourers are employed on large-scale farms. On average,

smallholder families own around three hectares of land, with the maximum size of landholding generally not exceeding 20 hectares. National poverty-alleviation programmes are concentrated mainly on ways of achieving food security through the promotion of food-staples production, the distribution of seeds, the subsidization of maize production and the organization of poor and small farmers into production groups for purposes of achieving economies of scale.

60. At the other end of the spectrum, there are large commercial farmers in Zimbabwe who own on average 2,000 hectares, with farm sizes ranging from 1,000 to 15,000 hectares. Very little land was redistributed after the political transfer of power in the 1980s. Diversification away from traditional export crops such as sugar, coffee and tobacco into wildlife products and horticultural products has been accomplished only by large-scale commercial farmers. Diversification into horticulture, although highly mechanized, has been labour intensive and has thereby helped to generate many jobs employing the rural poor. The public sector has assisted these producers through various programmes, such as support for the mechanization of harvesting, processing technologies, the creation of export associations with access to banks and international markets for marketing non-traditional export products.

B. The horticulture export sector of Chile

61. Two panelists briefed the Workshop participants on Chile's experience in exporting non-traditional agricultural products. One of the panelists, Mr. Ramón Barcelo, pointed out that Chile's export of fruits and grapes grew by 15 per cent between 1987 and 1993, which is a rate of 2 per cent per annum, and that fruit production for export constituted one third of the total value of Chilean agricultural production in 1993. During that year, it accounted for 6.9 per cent of GDP and absorbed 16 per cent of the labour force.

62. Horticultural production in Chile, according to Mr. Barcelo, is linked to the agri-business industry in the sense that many products such as canned fruits, food preserves and frozen fruits and vegetables are processed for export. For instance, 33,000 tonnes of fruits and apple juices were processed for export in 1993. Small agricultural producers work directly with the agri-business sector and family work is an essential element in the functioning of this agricultural exploitation. The dynamics observed in this area include harmonious relationships between producers and processors.

63. Mr. Barcelo said that two points should be kept in mind concerning the Chilean diversification process. First of all, the Chilean economy has experienced outward-oriented growth in which exports of goods and services currently account for 45 per cent of GDP. This emphasis on exports and trade liberalization has induced Chile to negotiate with member countries of the Latin American Southern Cone Common Market (MERCOSUR) on Chile's ties with those countries. Secondly, this diversification was made possible, according to Mr. Barcelo, by rolling back the land distribution programmes of the early 1970s in ways that have enhanced the emergence of a prosperous agricultural sector and increased wages for labour. With the Government supporting agricultural production through irrigation programmes (1½ million hectares of irrigated land constituting one third of total agricultural land), Mr. Barcelo said that even Californian products cannot compete with Chilean exports.

64. The second Chilean panelist, Mr. Sergio Faiguenbaum, spoke about the relationship between small-scale agriculture and the agri-business industry in Chile. He highlighted the differences in yields, which could be as wide as 30 to

60 per cent, between small farmers and big agri-businesses. This difference in yields has made it an interesting option for small-scale producers to work directly with, and be attached to agri-businesses, as the latter offer smallholders the opportunity of earning a higher income. By way of illustration, Mr. Faiguenbaum described the linkages between small producers and processors in the production of tobacco, sugar and horticulture. According to Mr. Faiguenbaum, the horticulture sector includes over 1,000 small producers under contract with agri-businesses. An example is the Mapuche producers in the South, from whom apples are bought which have a high degree of acidity that is suitable for juice processing. Mr. Faiguenbaum went on to say that agri-businesses in Chile are becoming more highly capitalized and eventually are likely to become less dependent on contract relationships with small-scale producers.

65. Mr. Faiguenbaum concluded by saying that the public sector has helped smallholders become integrated in international trade through contract agriculture. This assistance has consisted of technology transfer, credit, information sharing, support in the introduction of crops for which there is a new demand, and advice in the negotiation of contracts with processors. For processors and exporters, the public sector has played an important role in assisting smallholders attain a high degree of reliability in the quality, timeliness and volume of their production for export.

C. Colombian smallholders and small processors of non-traditional agro-exports

66. Mr. Nestor Duran made a presentation that highlighted the production of processed guava and panela in Colombia, both of which are characterized by the extensive participation of smallholders and small processors in the sector. While most of this production is for the domestic market, a growing share has been destined to export markets in recent years. The production of these crops in their raw and processed forms, and the improvement of their quality, have been facilitated through the provision of support from the Colombian Government and from the Netherlands.

67. According to Mr. Duran, Colombia produces 30,000 tonnes of guava and 3,000 tonnes of guava paste per annum, with the combined exports of both totalling US$1 billion annually. As far as panela production - which accounts for 1.3 per cent of total GDP and 7.7 per cent of agricultural GDP - is concerned, governmental intervention has included support that is focused on the improvement of transportation, storage and packaging facilities. Producers' associations have been active in both improving the quality of these exports and promoting farmers' benefits from them. The Federation of Panela Producers, which was established in 1986, has promoted research that has helped improve the quality of the export product. The Association of Guava Producers, founded in 1981, has likewise sought to increase farmers' earnings from the exportation of guava paste.

68. More research is currently under way to improve the processing facilities of both panela and guava, so as to enable these products to be as competitive as possible in international markets. Work is also being carried out with the aim of achieving further diversification in the export fruit sector.

D. Alternative trade channels for non-traditional agro-exports

69. Ms. Pauline Tiffen spoke about alternative trade organizations (ATOs), making special allusion to TWIN, of which she is a director. She emphasized that

one of the reasons export-oriented activities have not brought prosperity to smallholders was that they lacked bargaining power and knowledge vis-à-vis traders who possess knowledge, credit and monopolistic buying power. According to Ms. Tiffen, smallholders generally do not know the value of their labour in the market-place, nor are they familiar with the retail prices of the commodities that they produce. ATOs have helped small producers cope with technologies, regulations, ill-informed government interventions, and changes in demand in export markets. Ms. Tiffen said that ATOs seek to mitigate the powerlessness of small-scale producers who are caught in unfair supplier/buyer relationships in which they are exploited and manipulated.

70. According to Ms. Tiffen, the ATO movement was founded 25 years ago, with OXFAM's retail trading company being one of the first of these organizations. The ATOs operate in diverse ways throughout the world. At first they focused on the promotion of crafts made by small-scale producers, especially rural and urban women. During the past five years the movement has became involved in the marketing of agricultural commodities and traditional crops.

71. ATOs have a seal for the products that they sell which indicates that small-scale producers are the main beneficiaries of the sale of the product. The products sold in ATO shops are made by organized small-scale producers and the minimum price of such products covers their production costs.

72. One problem, according to Ms. Tiffen, has been that the world prices of some traditional crops, such as coffee, have persistently been below the prices set by the ATOs. She said that small-scale producers ought to be targeted. As with environmentally friendly products in recent years, Ms. Tiffen was of the view that there could be a niche export-market for the products of powerless, small-scale producers. An encouraging sign, she pointed out, is that supermarkets in the industrialized countries are now starting to sell ATO products.

E. The participation of smallholders in Guatemalan agro-exports

73. A member of the UNCTAD secretariat presented a paper by Mr. Maarten Imminck, of the International Food Policy Research Institute (IFPRI) based in Washington, D.C., who was unable at the last moment to attend the Workshop. The paper was on non-traditional agro-exports from Guatemala. The UNCTAD staff member indicated that fruits and vegetables fetched about US$ 105 million in export revenue in 1992, which then represented about 15 per cent of all agricultural exports from Guatemala. In export horticulture, over 17,000 jobs have been created annually in recent years, which is almost a quarter of the additional jobs per year that Guatemala needs to generate to absorb the natural growth in the labour force. The panelist further indicated that some 95,000 smallholders are engaged, through contract-farming arrangements, in the production of horticultural products in Guatemala. Labour intensity, he pointed out, has been especially high in snowpeas export production, where workdays per hectare are over ten times what they are, say, for subsistence maize or beans. Where production growth has been most rapid and concentrated, rural wages have become considerably higher than in other parts of the country. Women have benefited less than men as a result of distributional practices based on cultural traditions, and because of their lack of participation in heavy labour activities.

74. The distributional consequences of horticultural production, particularly with respect to vegetable crops, has been very different from traditional agriculture. The average land size of producers is 0.6 hectares in horticultural production, which reflects the size that can be managed most effectively for the

production of some export vegetables using largely farm labour. Producers in the bottom quartile of Guatemala's income distribution have received over 60 per cent of total producer revenues from the sale of certain vegetables for export, as opposed to below 25 per cent for traditional export crops. Since the bottom quartile's share of Guatemala's GNP is only 3 per cent, the implication is that the inequality afflicting the indigenous population has been moderated and that many of the poor have been able to rise out of poverty through their participation in the production of horticultural crops for export.

75. Much of the success of non-traditional agro-exports production in Guatemala has been due to the role of agricultural export-trade associations. They have helped to create ties between Guatemalan exporters and importers in the United States and have also helped to link these exporters to small producers. One of the means utilized by these associations to foster such ties has been the sponsorship of trade fairs. A hierarchy of agricultural cooperatives, ranging from base cooperatives to cooperative federations, has also served as a vehicle for marketing horticultural products.

76. Seeds, fertilizer, pesticides, packing materials, and in some cases machinery and assistance with harvesting have been provided by processors and exporters to smallholders operating under contract-farming arrangements. These inputs are deducted from the value of the product at harvest, accounting for about 30 per cent of farmgate prices on average. None the less, there remain problems to resolve as regards contract-farming arrangements. For instance, producers complain about the high rate of product rejection by processors when product supply is abundant, whereas processors complain that many producers break their contract when spot prices at harvest time exceed the contract price.

F. Agro-export diversification in Kenya

77. Mr. Mulinge Mukumbu described horticultural production in Kenya, explaining that at present it accounts for 20 per cent of that country's export earnings. Currently, the horticulture export sector ranks third behind tourism and tea as a generator of foreign-exchange earnings for Kenya, and has played a major role in providing employment and income to many rural smallholders. The exports of horticultural products are destined mainly to the European markets. According to Mr. Mukumbu, the principal horticultural exports are green beans, cut flowers, Asian vegetables and processed and fresh fruits. Of these, green beans are the principal export crop, and they are grown in the eastern part of Kenya where poverty is widely prevalent.

78. With the decline in world prices for traditional export crops such as tea and coffee, the growth of production and trade in fruits, vegetables and flowers has helped to diversify exports in a manner that has been important for poverty alleviation. According to Mr. Mukumbu, horticulture production in Kenya has provided employment to an estimated 1.8 million people, as compared to 1.6 and 1.3 million who are engaged in the cultivation of coffee and tea respectively. It has generated income for small farmers and, in cases of producers with otherwise limited economic opportunities, has helped many to emerge from poverty. It has also created backward and forward linkages that have acted as an impetus to overall economic growth in the localities concerned.

79. According to Mr. Mukumbu, horticultural production in Kenya is characterized by a wide diversity in farm sizes, products and geographic regions. Smallholders tend to be engaged in the production of fruits and green beans for export, but generally lack ready access to market information, credit, technical assistance and high-quality seeds, and make limited use of inputs due to their

lack of working capital. The marketing of their produce is controlled by large farmers and middlemen. Despite these constraints, Mr. Mukumbu was of the opinion that contract farming programmes and outgrower schemes have generally enabled many smallholders to improve their economic situation over the years.

80. Mr. Mukumbu, however, noted that the growth of international demand for high-quality produce and guaranteed supplies is likely to favour in future years large-scale farmers who are more competitive than smallholders in the production of vegetables and flowers. According to him, the Kenyan Government and donor agencies could alleviate poverty if they were to support with research and extension work the continued participation of smallholders in the production of non-traditional agroexports.

Discussion

81. Participants discussed at some length the case-studies presented by the panelists. In view of the diversity of presentations made by the panelists of Working Group 2, participants concentrated their efforts on synthesizing, distilling, abstracting and deriving valid generalizations from the main points made by the panelists. Participants also reached differing views on some of the points raised by the panelists. A number of specific comments by the participants are summarized below:

(a) Given the changes that have taken place in commodity markets, participants felt that niche exports should be identified with the aim of shifting production patterns from traditional export crops to non-traditional export crops. Emphasis was also given to regional and subregional agreements as a means for countries to export and import complementary products within given regions.

(b) Participants felt that in only a minority of cases has there been an attempt to incorporate smallholders into additional agro-export programmes. They felt that the integration of agricultural smallholders into the international trading system should be an essential element of a poverty-alleviation strategy. Women in particular can often benefit, as they are in many cases the sole cultivators in rural areas. Contract farming, it was also pointed out, may have significant local multiplier effects important to poverty alleviation. However, while non-traditional agro-exports were viewed favourably in terms of their contribution to income growth and productivity, participants thought that perhaps more could be done through this sector to achieve improved income-distribution effects.

(c) It was noted that the smallholder sector is characterized by high exit as well as entry rates when it comes to non-traditional agro-export production. To foster and strengthen smallholders in such circumstances, and in particular with respect to contract farming, a number of participants felt that smallholders should be targeted for assistance and support by the public sector and donors. Such assistance, they said, is needed to help smallholders make the shift from producing traditional commodities to producing non-traditional crops for export. The assistance, they indicated, is also necessary for upgrading the quality of their produce. Public expenditure on rural access roads was also seen as a useful way in which governments and donors can help smallholders.

(d) Participants emphasized the importance of including smallholders in non-traditional agroexports production in ways that would reduce their vulnerability to undue exploitation by traders and processors. There was

concern, for instance, that contracting firms make smallholders incur any financial loss in times of crop failure. Participants, accordingly, discussed fair and effective examples of smallholder contracting arrangements with large-scale agribusiness firms, as well as associations of smallholders that enhance their bargaining power. It was suggested, among other things, that the legal aspects of contract farming should be strengthened.

(e) Some participants stressed that the engines of non-traditional agro-exports expansion are typically farmers' organizations and the processors concerned. They expressed the opinion that governments, NGOs and cooperatives have only a limited role to play. They felt that it was not clear to what extent the public sector - as opposed to the private sector - should invest in existing and new smallholders and producers to enable them to cope with a constantly changing competitive environment. It was also pointed out that profit-making arrangements in horticulture production and marketing can in certain cases have socially desirable results, whereas cooperatives have sometimes had disappointing results in terms of raising the poor out of poverty.

(f) A number of participants expressed concern that smallholders are being gradually marginalized in agro-exports production by large farmers and the agribusiness sector. Contractual arrangements with smallholders are increasingly being replaced by vertically integrated linkages based on plantation forms of production. It was feared that economic liberalization would intensify this dualism by widening the gap between dynamic and backward zones. Some participants suggested that the role of the State should be rehabilitated in terms of extension services to smallholders. They expressed dismay at the reduced role of the State in such matters that has resulted from the economic liberalization process.

(g) A participant said that creating employment, as in the case of non-traditional agricultural exports, does not of itself alone alleviate poverty. The poor need empowerment, including the consciousness and ability to be able to cope in a competitive world, which comes from, among other things, having political influence. As things stand, the poor tend to be atomized and have only their labour to sell.

(h) Participants felt that a number of issues should be further examined on future occasions concerning smallholders. Those issues include income differentiation, gender inequality generated by the production of non-traditional export crops, food security in relation to export-crops production, risk sustainability, and conflicting interests between large exporters and smallholders. In particular, it was recommended that more analyses be made regarding the distinction between smallholders and labourers, since improving the conditions of the latter is especially important for alleviating poverty.

IV. SESSION II OF THE JOINT WORKING GROUP: CONCLUSIONS AND RECOMMENDATIONS

82. Working Groups 1 and 2 reconvened on 13 January, in plenary, to present - and share with the other Working Group concerned - their conclusions and recommendations. Each Working Group assigned two panelists to make presentations on their behalf.

Summary of the conclusions and recommendations of Working Group 1, as presented by Messrs. Albert Berry and Francisco Uribe-Echevarria

83. The impact of international trade on poverty alleviation through the small-scale sector can be both positive and negative. Liberalized import regimes can destroy enterprises and jobs, thus hurting the poor. The impact of an export orientation is ambiguous: small enterprises have a difficult time gaining access to foreign markets, but when they do jobs are created. Scale asymmetries make it hard for small enterprises to penetrate markets where large actors dominate. Those that do succeed often have difficulty in maintaining a presence due to rapidly changing patterns of demand and technological innovations. Small enterprises also find that they must transform their management and operational practices when they shift from closed to open markets. Despite these constraints, instances of small and micro-enterprise involvement in exports production can be found in many developing countries.

84. Circumstances regarding the participation of the small-scale sector in international trade vary considerably between and within the developing country regions. The Republic of Korea, for instance, has experienced a dramatic growth in the role of its small-scale sector in exports as a result of subcontracting arrangements. Most countries, however, have witnessed only moderate or minimal participation of the small-scale sector in international trade. A major reason is that export-oriented subcontracting is not widely practised in most developing countries. Instead of being facilitated by large firms, vital requirements concerning the small-scale sector, such as marketing channels, technological transfer, training and credit functions must be secured through other means. Local governments and private associations may play an important role in helping to link production and marketing functions in ways that can reduce transaction costs. There are limits, however, to what such intermediary forms of intervention can achieve. Indeed, much of the dynamism of successful export clusters appears to be almost historically accidental.

85. In Latin America and elsewhere, the globalization of economic forces may be pushing more large firms to subcontract parts of their operations. Maquiladoras in Mexico and Central America may already be moving in this direction, first with their own transplanted national suppliers and later with domestic suppliers. But differences will remain, depending on the industry, location and foreign owner in question. At the margin, it would be of interest to monitor what works best and where, with respect to small-enterprise subcontracting arrangements.

86. In terms of effectiveness and efficiency, one needs to ask what the criteria are for successful government interventions. In general, interventions should be demand driven, relying as much on self-selection on the part of enterprises as on suitable targeting. Wide coverage that embraces both small and micro-enterprises is probably the best strategy possible, and the assistance should be limited so as not to pose budgetary difficulties for the local and national governments concerned.

87. With respect to poverty alleviation, there is the question of whether "trickle-down" or direct employment-creation effects are more significant. While the direct benefits to poverty alleviation may be limited in the cases of larger enterprises, the local multiplier impact can often be substantial. However, "trickle-down" benefits can be slow and become diluted in the process of reaching the poor, while jobs directly created in small and micro-enterprises as a result of intermediate and final export-goods production can be significant and long lasting.

88. While the poor tend predominantly to be labourers working in the small scale sector, the small entrepreneurs that employ them are seldom the poorest o the poor. As for the question of labour exploitation, wages may be very low bu they represent the best option available to the workers concerned. With respec to child labour, parents normally do not exploit their children's welfare, bu laws are important to deter such cases as may sometimes arise.

Summary of the conclusions and recommendations of Working Group 2, as presented by Messrs. Sam Moyo and Peter Little

89. Non-traditional agro-export processes are difficult to sum up in view o the range of commodities and markets concerned, the size and scale of operation of producers and processors in the sector, the relative degree of mechanizatio versus labour intensity of the operations concerned, and the role o intermediaries who link, for instance, contract farmers, processors, expor agents and importing countries. The instability of export markets where deman is constantly changing poses further complications. Rather than jumping into ne export areas, it is wiser to seek to export products that have already bee thoroughly tested in local and national markets. South-South trade is often promising way to expand production beyond domestic markets.

90. Certain smallholder attributes warrant special mention. Out of ris aversion, for instance, many smallholders diversify their production so as t include traditional staples as well as non-traditional export crops. Given th labour-intensive nature of vegetables production in particular, demand for labou is generally high, but the growth in demand for labour may not continue to ris linearly since technological applications are becoming more widespread in th sector. For this and other reasons, smallholder participation may be diminishing

91. Targeted interventions should take into account the different interests an needs of workers, smallholders and the subregions where the poor ar concentrated. Interventions may be directed at fostering and supporting producer led associations that can help to empower smallholders rather than leave the vulnerable to atomistic dealings. An improved legal/institutional framework i important for contract farming as it makes the arrangements more transparent an reduces the risks for both sides.

92. Government policies and interventions should take into account the possibl income distribution and multiplier effects that they may induce. For example, i would reduce income inequality if most public assistance in support of contract farming were targeted to disadvantaged, isolated areas where the poor are ofte concentrated, as opposed to advantaged areas near major urban areas an international airports.

93. The importance of the private sector remains pivotal. In terms of the transfer of technology and other necessary inputs to smallholders, there is a positive correlation between increased small farmer productivity and agribusiness ties. Indeed, private input systems are in some respects often more dynamic an reliable than parastatals in supplying necessary inputs to farmers and i marketing their crops internationally. The challenge is to develop linkages that minimize opportunities for the strong to gauge and unduly exploit the weak an poor. Finding ways of encouraging socially progressive arrangements betwee smallholders and agribusinesses is especially urgent in order to fill the void resulting from the collapse of public extension services that has been occurring in many developing countries once economic liberalization policies have been adopted.

Annex I

INTERREGIONAL WORKSHOP ON POVERTY ALLEVIATION THROUGH INTERNATIONAL TRADE

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Annex II

LIST OF PAPERS PRESENTED TO THE WORKSHOP BY PARTICIPANTS

CH-PA Poverty alleviation through international trade.
Background note by the UNCTAD secretariat (English and Spanish)

CH-PA1 The knitwear cluster in Tiruppur: an Indian industrial district in the making ? By: Padmini Swaminathan (in collaboration with J. Jeyaranjan), India

CH-PA2 Impact of export horticultural production on rural income growth and poverty alleviation in Kenya. By: Mulinge Mukumbu, Egerton University, Kenya

CH-PA3 Experiencias de exportacion de Micro y Pequeñas empresas en el Peru con apoyo de ONGs. By: Samuel E. Chincaro, Pequeña Empresa, Tecnologia y Sociedad PEMTEC, Peru

CH-PA4 La Agroindustria del ate o pasta de Guayaba y la Panela como factores de cambio para el Alivio de la Probreza en Colombia. By: Duran Castro, Colombia

CH-PA5 Subcontracting in the Mexican industry: Recent challenges and opportunities. By: Dr. Ismael Aguilar Barajas, Departamento de Economia y Centro de Estudios Estrategicos, Mexico

CH-PA6 Vertically integrated producer-consumer marketing chains: reinventing comparative advantage for the poor. By: Pauline Tiffen, Trade Development, TWIN, London

CH-PA7 The small-scale export sector as a route to poverty alleviation.
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